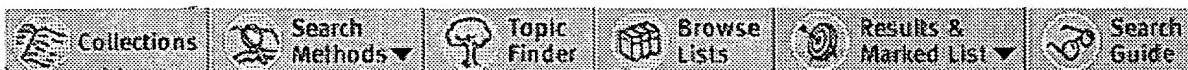


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BusinessWeek

Net Games Are Drawing Crowds

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Abstract:

For nearly a decade, a dozen Net startups have been beating the drums for online gamers. And while the bulk of the Net struggles to find cybernauts willing to pay for any kind of content, gamers are game to the tune of some \$127 million this year. On March 10, heavyweight Microsoft Corp. telegraphed its plans to be a major online gaming company with the revamp of its Internet Gaming Zone site. This summer, America Online Inc. will offer a 3-dimensional gaming world, CyberPark. And MCI Communications Corp. plans to launch a service this year that allow computer user to play their favorite CD-ROM games with others over an MCI network. Online gaming could reach \$1 billion in the year 2000, but most companies will not be profitable.

Full Text:

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[Photograph]

THE LONG VIEW: ``We want to be the biggest name in online games," says Fries of Microsoft, and deep-pocketed players have a big edge--they can wait for black ink

CHRIS SCHRAMECK

For Cherie Conner, playing Scrabble with friends at a local club was a way to forget the stress of directing airplanes at Prescott Airport in Arizona. But ever since her husband gave her a CD-ROM version of the game last Christmas, things have changed for the 40-year-old air traffic controller. Rather than hop in her car for her jaunts to the club, she now jumps on her personal computer and heads to a World Wide Web site called Mplayer. There, she spends one to three hours a day playing against other Scrabble fans. "I know," she confesses. "I'm addicted."

It's tales like this that are setting the stage for a Doom-like battle on the Internet. For nearly a year, a dozen Net startups, including Mpath Interactive Inc., the Silicon Valley company that runs Mplayer, have been beating the drums for online gamers. And while the bulk of the Net struggles to find cybernauts willing to pay for any kind of content, gamers are, well, game--to the tune of some \$127 million this year, says Forrester Research Inc.

A GOLD RUSH? That isn't going unnoticed by the big guns—and now online gaming is about to get serious. On Mar. 10, heavyweight Microsoft Corp. telegraphed its plans to be a major online gaming company with the revamp of its Internet Gaming Zone site. This summer, America Online Inc. will join the fray when it offers its 8 million members a three-dimensional gaming world, CyberPark. And MCI Communications Corp. plans to launch a service this year that allows computer users to play their favorite CD-ROM games with others over an MCI network. "We are definitely in a gold-rush mentality," says analyst Seema Chowdhury of Forrester.

But no one is likely to hit the mother lode soon. While online gaming could reach \$127 million this year, it is but a fraction of the \$2 billion market for CD-ROM games and entertainment software. What's more, there are technical glitches that still need to be ironed out. Chief among them is so-called latency, or the time lag of sending small packets of data across a global network, such as the Internet. When the Net gets bogged down, these chunks of data can take a long time to reach each player's computer on the Net, making games jerky.

Then there's the fee factor. Companies are still fiddling with just how much to charge players. In February, Mpath, for example, reduced its \$19.95 monthly rate to \$29.95 a year and added a "free zone" of its more basic games—moves that more than doubled its number of subscribers. And NetPlay Inc., a San Diego startup that will offer card games such as poker starting Apr. 1, will try a mix of approaches: up to three hours a month free to grab the attention of casual users, who may then pay \$20 for six months of unlimited use.

The bottom line: Online gaming could reach \$1 billion in the year 2000, says Forrester, but most companies won't be profitable. "Everyone thinks this is a home run," says Chowdhury. "But it takes years and a sinkhole of investments until you hit mass-market numbers."

TEAMING UP. That gives deep-pocketed players such as Microsoft an edge. The software giant has been testing card games with users of its Internet Explorer browser since last May. But now the newly launched Web site, www.zone.com, is available to anyone with Net access and lets owners of CD-ROM games, such as Microsoft's Monster Truck Madness or Microsoft Golf, play against other owners online.

Microsoft also is teaming with game companies, such as Hasbro Interactive Inc., which will make its CD-ROM versions of Monopoly, Risk, Scrabble, and Battleship work over Internet Gaming Zone. "We want to be the biggest name in online games," says Ed Fries, general manager of Microsoft's Entertainment Business Unit.

Internet Gaming Zone is well on its way. Since last May, the gaming site has attracted more than 200,000 registered players. That's more than double what either Mpath or gaming pioneer Total Entertainment Network (TEN) has managed over the past year (table). The secret to Microsoft's success? It's free. Microsoft is banking on ad revenues to pay for its Web site—and the Web site, in turn, will increase sales of its CD-ROM games. Microsoft figures 10% of the retail sales of Monster Truck Madness, for example, have been due to its online component.

The cross-pollination between online games and CD-ROM sales is becoming a big lure for companies. Take Berkeley Systems Inc. of Berkeley, Calif., which has sold 500,000 CD-ROMs of its sassy, TV-like trivia game called You Don't Know Jack. The game now has a separate life online at Berkeley's Web site, www.beZerk.com, which executives say could boost retail sales. "We think there's a halo effect," says Chris Deyo, vice-president for marketing.

Since December, 80,000 members have signed up for the free service, playing "netshows" of Jack for points and

prizes. And, since beZerk's version of the game feels like a televised trivia contest, ads are a natural. Net contestants are cleverly fed 10-second commercials from sponsors such as 7-Up, New Line Cinema, and Plymouth.

At TEN, CEO Jack Heinstand has been reluctant to convert entirely to an ad-supported service. "The risk is, if all of us think this is the way to compete, it becomes a commodity," he says. Instead, TEN will try to differentiate itself by partnering with software developers to create exclusive online-only games so compelling that members will pay.

Indeed, lots of companies are still looking at ways to make "pay-for-play" work. Just ask Interactive Magic, a software maker in Research Triangle Park, N.C. The company is testing Warbirds, an online-only flight simulator that can link thousands of cyberpilots simultaneously on its Web site, and charging \$1.95 per hour. "We perceive our growth to be 100% to 300% online over the next year," says Chairman J.W. "Wild Bill" Stealey.

Others are betting that online gaming will appeal to an older audience than the teen crowd addicted to twitch-and-trigger video games. Mpath, for example, says a survey of its users shows only 30% are teens. That's leading to the development of more grown-up fare, such as virtual worlds that emphasize role playing and community-building. 3DO Co.'s Meridian 59, for example, links thousands of players from around the globe in an imaginary medieval world of sword and sorcery. The rate: \$9.95 per month.

Perhaps the biggest such undertaking is CyberPark. Developed by ImagiNation Network (INN), an online game service acquired in 1996 by AOL, it will be a virtual theme park where members can wander around, chat, and play various games. In addition to AOL, Dean DeBiase, president of INN, says it's working to sign deals with other Internet service providers as well. And by signing up developers to create exclusive games, DeBiase thinks consumers will flock to CyberPark. "This is the fun button in cyberspace," he says.

It's too early to tell whose games will win. But as the companies and pricing plans battle it out on the Web, it will be the game players, such as Cheri Conner, who will be raking in the windfalls and having all the fun.

[Photograph]

QUAKE IS AIMED MAINLY AT MEN

[Photograph]

SCRABBLE DRAWS FROM BOTH SEXES

The Scorecard

COMPANY/NUMBER OF USERS & DESCRIPTION

MICROSOFT INTERNET GAMING ZONE (200,000 users): The Web site hooks up players with online versions of its own games, as well as Monopoly and others from Hasbro. With no subscription fees for now, it relies on advertising for revenue.

TOTAL ENTERTAINMENT NETWORK (TEN) (26,000 users): Features 10 popular games, including Quake. Subscribers have two ways to pay: \$29.95 a month for unlimited use or \$1.95 per hour.

MPLAYER (50,000 users): Mplayer offers popular games such as Diablo. Its pricing recently switched from \$19.95 per month to \$29.95 per year.

AMERICA ONLINE (8 MILLION users): The No. 1 online service plans to unveil CyberPark this summer. Members will roam a virtual 3D theme park filled with games. Pricing is expected to be an additional charge over AOL's \$19.95 monthly fee.

BERKELEY SYSTEMS BEZERK (80,000 users): A popular game, You Don't Know Jack, hits the Net on this new Web site. Free to users, beZerk will depend on ad revenues.

DATA: COMPANY REPORTS, BUSINESS WEEK

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